View of Typical Patient's Room

View of Part of Fifth Floor Roof

Mechanical Systems:

Elevators: Building has four primary cars, grouped at the rear (south end) of the building, each with a capacity of 4,500 pounds or 28 persons. Travel from basement to sixth floor. One car at front travels from basement to first floor.

HVAC: Building has no boiler. Operates via Con Edison steam, to a reducing valve in basement. Steam also drives the central chillers in the basement.

Building also has a "co-gen" system, with four 75-KE generators located in the one-story extension on Forsyth Street. Total of 300 KW. System is approximately one year old and can produce domestic hot water and heat, in addition to electricity. However, system is generally not deployed during mild seasons, when full capability would not be utilized.

Plumbing: Most piping was renewed during the conversion construction, completed in 1995. Cast iron waste pipes, copper supply lines.

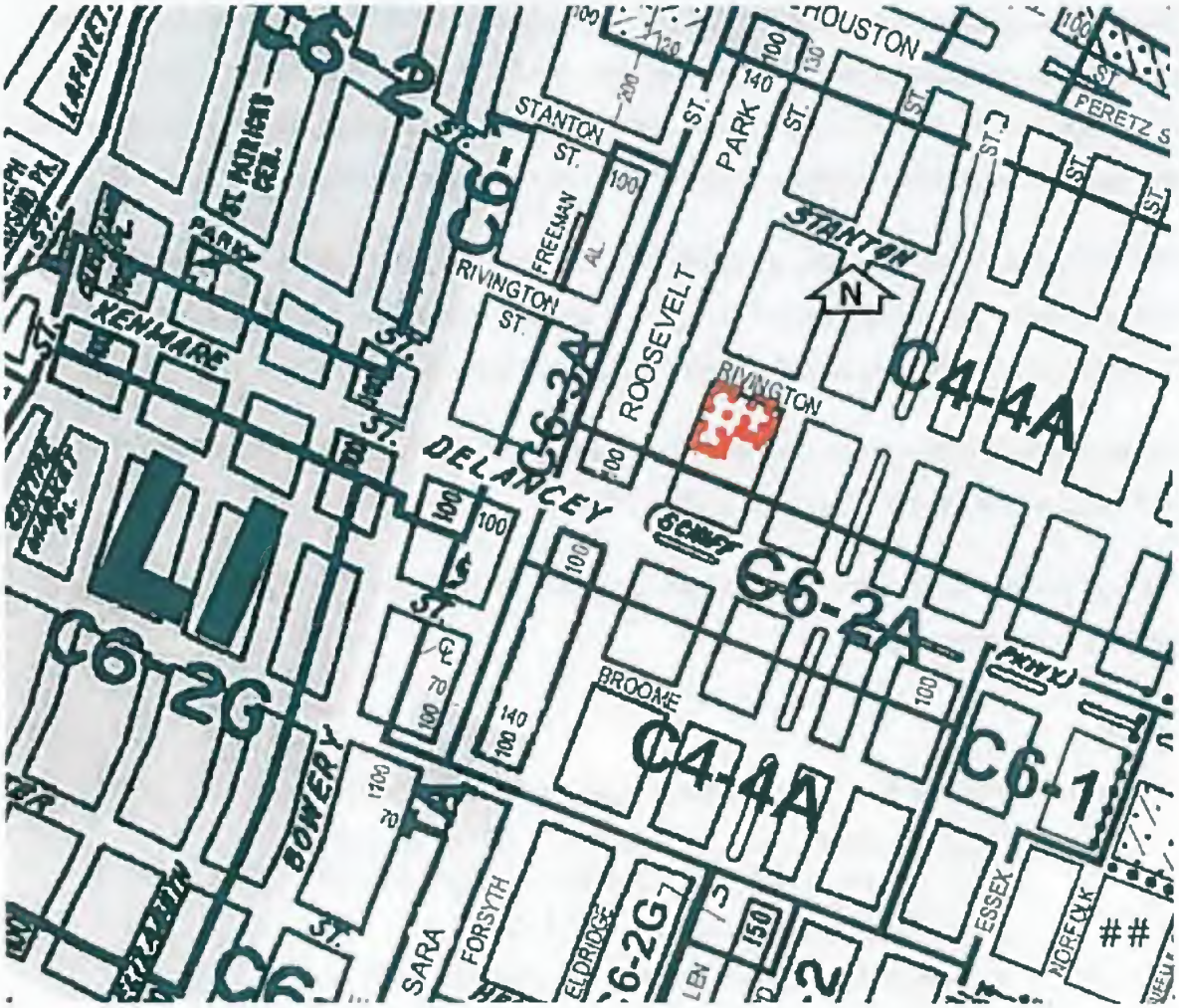
View of Peaked Roof Above Sixth Floor

View of Co-Gen Plant in One-Story Extension

View of Basement Corridor; Glass Block Walls

View of Main Kitchen in Basement

ZONING MAP


HOUSTON
STANTON ST.
PARK ST.
PERETZ S
LAFAYETTE
ST. PATRICK'S CATH.
PARK PL
KENMARE ST.
FREEMAN AL
RIVINGTON ST.
ROOSEVELT
STANTON
N
RIVINGTON
C6-2
C6-
C6-3A
C4-4A
DELANCEY
ST.
C6-2A
C6-2G
BROOME
C4-4A
C6-1
BOWERY
SARA
FORSYTH
ELDRIDGE
C6-2G
ESSEX
NORFOLK
PARK PL

ZONING ANALYSIS

The subject property is zoned C4-4A. This zoning district allows both residential and commercial uses, each with a floor area ratio (FAR) of 4.0. The FAR represents the allowable square feet of building area compared to the plot area. The residential area in this zone is equivalent to that allowed in an R7a residence district.

The C4 districts are generally located outside of the central, or core, business districts. Instead, these are usually found in regional commercial areas, including parts of lower Manhattan, the Flushing area in Queens and the Hub area in the Bronx.

Extremely tall buildings are not permitted, since buildings are limited to a height of 80 feet as of the rezoning which occurred in 2008.

Parking requirements vary, but typically for many uses in this district, including hotels, parking is not required.

Hotels

(a) For that floor area used for sleeping accommodations:

None required: C1-5, C1-6, C1-7, C1-8, C1-9, C2-5, C2-6, C2-7, C2-8, C4-4A, C4-4L, C4-5, C4-5A, C4-5X, C4-6, C4-7, C5, C6, C8-4

1 per 4 guest rooms or suite: C2-1, C4-1

1 per 8 guest rooms or suites: C2-2, C4-2, C8-1

1 per 12 guest rooms or suites: C2-3, C2-4, C4-2A, C4-3, C4-4, C4-5D, C8-2, C8-3

(b) For that floor area used for meeting halls, auditoriums, eating or drinking places, wedding chapels or banquet halls, or radio or television studios:

None required: C1-5, C1-6, C1-7, C1-8, C1-9, C2-5, C2-6, C2-7, C2-8, C4-4A, C4-4L, C4-5, C4-5A, C4-5X, C4-6, C4-7, C5, C6, C8-4

1 per 4 persons-rated capacity: C2-1, C4-1

1 per 8 persons-rated capacity: C2-2, C4-2, C8-1

1 per 12 persons-rated capacity: C2-3, C4-2A, C4-3, C8-2

1 per 25 persons-rated capacity: C2-4, C4-4, C4-5D, C8-3

ASSESSED VALUE AND REAL ESTATE TAX ANALYSIS

The subject property is operated as a SNF by a not-for-profit organization. As such, in accordance with New York State real property tax law section 420-A, the real property is exempt from taxation. If ownership were to change to a for-profit entity, the property would be subject to full taxation.

The assessed values for the subject property for the 2014/15 real estate tax year are as follows:

	Transitional	Actual
Land	$1,569,240	$1,471,500
Building	6,901,830	7,666,650
Total	$8,471,070	$9,138,150

Any increase in the real estate tax assessment for a New York City property is phased in via equal installments over a five-year period. The actual, or target assessed value reflects the new total while the transitional figure reflects the stage of the phasing, as of the individual fiscal tax year. Real estate taxes are typically computed on the basis of the transitional figure, unless the actual assessment is lower.

For the purposes of establishing tax rates, the City of New York has divided all properties into four classes, as follows:

Tax Class	Property Type	2014/15 Tax Rates
I	1-, 2-, and 3-Family Residential	.19156
II and IIA	All Other Residential	.12855
III	Utility Real Estate	.11125
IV	All Other Property	.10684

We have used the 2014/15 Class IV tax rate of 0.10684 to determine the potential real estate taxes for the subject (property is exempt, as noted). The potential taxes, as a for-profit ownership, are as follows:

$8,471,070 x 0.10684 = **$905,049.**

§ 420-a. Nonprofit organizations; mandatory claus. 1. (a) Real property owned by a corporation or association organized or conducted exclusively for religious, charitable, hospital, educational, or moral or mental improvement of men, women or children purposes, or for two or more such purposes, and used exclusively for carrying out thereupon one or more of such purposes either by the owning corporation or association or by another such corporation or association as hereinafter provided shall be exempt from taxation as provided in this section.
(b) Real property such as specified in paragraph (a) of this subdivision shall not be exempt if any officer, member or employee of the owning corporation or association shall receive or may be lawfully entitled to receive any pecuniary profit from the operations thereof, except reasonable compensation for services in effecting one or more of such purposes, or as proper beneficiaries of its strictly charitable purposes; or if the organization thereof for any such avowed purposes be a guise or pretense for directly or indirectly making any other pecuniary profit for such corporation or association or for any of its members or employees; or if it be not in good faith organized or conducted exclusively for one or more of such purposes.

2. If any portion of such real property is not so used exclusively to carry out thereupon one or more of such purposes but is leased or otherwise used for other purposes, such portion shall be subject to taxation and the remaining portion only shall be exempt; provided, however, that such real property shall be fully exempt from taxation although it or a portion thereof is used (a) for purposes which are exempt pursuant to this section or sections four hundred twenty-b, four hundred twenty-two, four hundred twenty-four, four hundred twenty-six, four hundred twenty-eight, four hundred thirty or four hundred fifty of

HISTORY OF THE SUBJECT PROPERTY

Our search of the property records indicates that there have been no recent transfers of the subject property. We have provided, in the Addenda, a copy of the original deed, dated December 3, 1992, from the City of New York to the Rivington House Health Care Facility.

The owner of record is the Rivington House Health Care Facility.

HIGHEST AND BEST USE ANALYSIS

The subject property was originally built as a public school, but was fully renovated and converted to a SNF in 1995 (approximately 18 years ago). At that time, the AIDS epidemic was rampant in the New York City area and many victims of that disease required nursing home care before eventually dying from that illness. With advances in the types of medicines now available, the disease has basically now become a treatable, but long-term illness, with victims now generally capable of functioning in the community, without the need for long-term SNF care. Thus, the need for the large physical plant, with 219 beds, has now diminished to the point where the bed usage rate has declined to a level at which the economic viability as an SNF is seriously threatened. Thus, by request of the client, this update appraisal is based on the use of the property as a not-for-profit SNF, without the restriction to the treatment of AIDS-related patients. This will be discussed further in the *Valuation* section of the appraisal, but must be indicated here for any meaningful discussion of the highest and best use.

The highest and best use analysis is typically employed in an appraisal as a basis for choosing appropriate comparable data, for reconciling the approaches to value and , primarily, for establishing as to whether the subject property should be considered as appropriate for the basis of value, or whether an alternate form of use should be considered for a particular site.

Highest and best use is defined in The Dictionary of Real Estate Appraisal, Fifth Edition, published by the Appraisal Institute, as:

1. The reasonably probable use that supports the highest present value of vacant land or improved property, as defined, as of the date of the appraisal.
2. The reasonably probable and legal use of vacant land or an improved property, which is physically possible, appropriately supported, financially feasible, and that results in the highest value. The four criteria the highest and best use must meet are legal permissibility, physical possibility, financial feasibility, and maximum profitability.

Implied in these definitions is that the determination of highest and best use takes into account the contribution of a specific use to the community and community development goals, as well as the benefits of that use to individual property owners. Hence, in certain situations the highest and best use of land may be for parks, greenbelts, preservation, conservation, wildlife habitats, and the like.

The consideration (but not the valuation herein) of the subject in terms of highest and best use criteria is as follows:

HIGHEST AND BEST USE OF THE SITE AS IF VACANT

Legally Permissible:	The subject property is located in a C4-4A zoning district. The site would allow commercial or residential development at a maximum of 4.0 FAR (exclusive of any bonus).
Physically Possible:	The subject property is located on the full blockfront of Rivington Street, between Forsyth and Eldridge Streets, with 25,010 square feet of plot area. Given the size and shape of the subject site, without consideration of the SNF focuas of this appraisal, we are of the opinion that the subject site is suitable for re-development with a modern hotel or apartment building, consistent with the recent trend now found throughout the subject's neighborhood; (see *Neighborhood Analysis* discussion).
Financially Feasible:	A hotel or apartment building would be feasible, considering the relatively high rental rates and the strong demand for those types of properties.
Maximally Productive:	Future potential development of the subject site with either a residential apartment building or a hotel, (again, excluding the existing SNF use) will generate the highest unit price for the land.

In consideration of the four highest and best use constraints, we are of the opinion that the development of the subject site with a hotel or an apartment building is the highest and best use of the subject site as if vacant.

HIGHEST AND BEST USE OF PROPERTY AS IMPROVED

We are aware that this appraisal, by request, is to focus on the existing, mandated, use as a not-for-profit SNF (as per deed restriction). We discuss the potential uses, absent the deed restriction.

Legally Permissible: The subject site is presently improved with a 219-bed SNF, converted to this use in 1995 from its prior use as a school. That use is legally permissible. We believe that, without the deed restriction, a conversion of the property, to hotel or apartment use, would also be in keeping with the existing structure and would allow for the highest and best use to be achieved without demolition of the improvement.

Physically Possible: The subject is located in a so-called "newly-emerging" neighborhood and the proposed use is consistent with new improvements in the immediate area. Therefore, the existing structure has great utility for conversion to a hotel or apartment building (again, absent the restriction).

Financially Feasible: The subject's location and neighborhood trends contribute to the financial feasibility of the conversion of the existing SNF to a hotel or apartment building. New construction of an apartment building or hotel will range from $650 per square foot to $900 per square foot, depending on the grade and type of construction and amenities. For a conversion of the existing improvement, the foundation, utilities, exterior walls, roof, windows, HVAC, etc. are all in place. Interior floor plans would have to be altered. We estimate this cost at approximately $185 to $230 per square foot. This is considerably below the cost for new construction of the same types of uses. Therefore, the continued use of the improvement, with a conversion to alternate uses, is deemed to be highly feasible, if not warranted and is financially feasible (absent the deed restriction).

Maximally Productive: We are of the opinion that the existing improvement, with the uses and conversion as noted, would represent the maximally productive use of the property.

The highest and best use for the subject property, as improved, but subject to the deed restriction, is for the continued use as a not-for-profit SNF.

VALUATION

Introduction

This appraisal is directed solely to the value of the property as a not-for-profit SNF. The property has been converted to a SNF (in 1995) and has been operating as such (as a nursing home) for approximately 19 years. Therefore, we must provide a value of the property as presently configured and operating. The ownership of the nursing home is a non-profit organization. That status as a non-profit organization conveys distinct benefits to both the property and to the ownership. Although we have found a major metamorphosis taking place in the Lower East Side neighborhood surrounding the subject property, in conformance with the deed, the property is to remain an SNF.

The appraisal of most types of real property typically utilizes three traditional methods of valuation. These are known as: the Income Capitalization Approach, the Sales Comparison Approach and the Cost Approach.

The **Income Capitalization Approach** is based on the principle of anticipation, which states that value is created by the expectation of future benefits. In this approach, the appraiser analyzes the actual operating performance of the subject property as well as other similar properties. From this, an estimate of stabilized net income is developed for a single year or period of years. This data is then processed into value using the appropriate capitalization technique to produce an indication of value.

In the valuation as a not-for-profit SNF, the Income Capitalization Approach represents a reasonable method of valuation for this property.

The **Sales Comparison Approach** is based on the principle of substitution. In this technique, the sales data for similar properties are researched and analyzed. The sales prices for these transactions are converted to a unit indication of value such as price per unit. These figures are then adjusted for any elements of difference between the property sold and the property being appraised. Such elements may include location, physical characteristics, date of sale and financing. The final unit of value thus derived is then multiplied by the unit size of the subject property to produce an indication of value.

The Sales Comparison Approach is often considered a secondary approach when analyzing an income producing investment property. This approach is more commonly used and relied upon in the valuation of properties that are purchased for owner occupancy. However, as a SNF, we have found several comparable sales that can be utilized in the valuation analysis as a SNF. We will display and discuss those nursing home sales.

The **Cost Approach** is based on the principle of substitution, which states that an informed purchaser will pay no more for a property than the cost of producing a substitute property with the same or similar utility. In this approach, the cost of constructing or otherwise producing a similar property is estimated. Depreciation from physical, functional and economic sources is deducted from this cost. The value of the underlying land is then added to this cost to produce an opinion of value. The age of the subject and the difficulty of estimating depreciation for a property of this age, including the renovation in 1995, render the Cost Approach an inappropriate method of valuation and, therefore, this approach has not been incorporated in the valuation of the subject property.

INCOME CAPITALIZATION APPROACH

The Income Capitalization Approach is based on the principle of anticipation (i.e., the investor anticipates deriving a desired rate of return from the expected future cash flows or income stream). This method assumes that there is a relationship between the quality and the quantity of income that a property will earn. Therefore, value is created through the expectation or anticipation of future benefits from ownership and operation of the property. These include annual cash flows at a reasonable return, plus the profitable sale of the property after a projected period of ownership. In the case of an operating nursing home, the income can become extremely complex, due to the myriad government programs that provide reimbursement for patients' costs. Our focus, then, is more on the actual historical trend of income and expenses.

The anticipated annual net operating income is processed to produce an indication of present value. The two primary techniques of converting net operating income into value in the Income Capitalization Approach are:

- Direct Capitalization using an overall capitalization rate; and
- Yield Capitalization, or Discounted Cash Flow Analysis, utilizing a discount rate (internal rate of return) and a terminal capitalization rate.

In the Direct Capitalization method, the net operating income for a single stabilized 12-month period is converted into value by the use of an overall capitalization rate. The Yield Capitalization method, or Discounted Cash Flow Analysis, converts the projected cash flow over a period of years including the reversionary value (i.e., property resale at the termination of the investment period), into net present value, using an internal rate of return (discount rate). We have used Direct Capitalization for the valuation of the subject SNF.

We have examined the end-of-year operating statements for the prior five years, including 2009, 2010, 2011, 2012 and 2013. That data is presented in full in the *Addenda*, with our summary chart on the next following page.